United Nations A/59/721/Add.1

General Assembly

Distr.: General
13 June 2005

Original: English

Fifty-ninth session
Agenda items 107 and 115

Review of the efficiency of the administrative and financial functioning of the United Nations

Joint Inspection Unit

Report of the Joint Inspection Unit entitled "Procurement practices within the United Nations system"

Note by the Secretary-General

The Secretary-General has the honour to transmit his comments, and those of the United Nations System Chief Executives Board for Coordination (CEB), on the report of the Joint Inspection Unit entitled "Procurement practices within the United Nations system" for the consideration of the General Assembly.

05-38272 (E) 050705

Comments of the Secretary-General and of the United Nations System Chief Executives Board for Coordination

Summary

The report of the Joint Inspection Unit entitled "Procurement practices within the United Nations system" (A/59/721) is an important study that comes at a time when both the organizations of the United Nations system and the Member States are focusing on greater transparency and accountability as well as more efficient and cost-effective procurement. The report explores various opportunities for increasing the efficiency and effectiveness of procurement services within the United Nations system, including through productivity enhancement, improved inter-agency cooperation and coordination and technological innovation. It also raises issues associated with procurement services within the United Nations system, while recognizing that procurement is no longer considered to be an obscure administrative activity but a high-profile and high-risk function.

Members of the United Nations System Chief Executives Board for Coordination are generally in agreement, with certain reservations, with the findings and the recommendations of the Unit concerning the rationalization of processes, establishment of unified reporting and accountability, training of staff, use of procurement manuals, common services, electronic methods and capacity-building in public procurement agencies in recipient countries.

I. Introduction

1. The Joint Inspection Unit (JIU) report presents a system-wide analysis of the status of procurement services and practices within the organizations of the United Nations system, with a focus on the strategic issues that are most likely to influence the cost-effectiveness and reform of the procurement process in the United Nations system. On this basis, it identifies various avenues for increasing procurement efficiency and effectiveness and makes a number of recommendations addressing productivity enhancement, the improvement of inter-agency cooperation and coordination, including the sharing of information and best practices, and the greater utilization of technological innovations.

II. General comments

2. Members of the United Nations System Chief Executives Board for Coordination (CEB) welcome the comprehensive scope of the report and note, with appreciation, the observation of JIU that, over the past few years, procurement reform within the United Nations system has benefited from increasing cooperation among the organizations of the system. They further note that, based on the progress that has already been achieved and in view of the significant growth in total volume and dollar value of United Nations system procurement, many of the organizations of the system continue to engage in reform efforts, demonstrating their collective desire to see further changes and improvements in the procurement process throughout the system.

3. CEB members agree with the report's finding that, while recent improvements have been made in the development of common approaches and tools, such as the "lead agency" and "common supply database and portal" concepts, the harmonization of procurement policies, procedures and practices have yet to make a real and substantive impact system-wide. They believe that, following their decision in 2003 to request the Inter-Agency Procurement Working Group (IAPWG) to report on procurement matters to the High Level Committee on Management (HLCM), the momentum in the reform of procurement policies and practices in the United Nations system will continue to be maintained, if not reinforced.

4. As to the findings and conclusions of the report, members of CEB express certain reservations, which had also been conveyed earlier to JIU, concerning the method of analysis and the results obtained in chapter II of the report on the issues of measurement of the cost-effectiveness of organizations' procurement services. Notwithstanding the acknowledgement of some of these points by JIU in the report, CEB members remain unconvinced regarding the following:

- The inaccuracy of using "average" figures as an indicator of productivity per staff member in the procurement units (based on the dollar value and volume of goods/services procured in 2002 by staff members of the organizations' procurement units), and the use of this indicator for establishing productivity benchmarks upon which staffing is to be determined;
- The absence of a framework for dealing with many extenuating factors and unforeseen variables that were not adequately considered in the report's analysis of procurement productivity, owing to the fact that procurement activities of the organizations of the system are so varied in terms of items or

goods and services procured, complexities of the market, quantities involved, quality considerations, geographical aspects, negotiating capacities and other parameters involved in the procurement processes;

- The failure to recognize that the cost-efficiency of the highly specialized United Nations system organizations that are implementing complex and customized systems cannot be compared with other organizations involved in procurement of common-use items, and that the cost/turnover ratio depends upon the complexity of the field.

5. In view of these continuing reservations, CEB members question why the analysis and findings in chapter II of the report and conclusions derived from that chapter have been retained in the report. Moreover, CEB members caution that in view of the diversity in the United Nations system procurement environment, the introduction of system-wide mandatory performance benchmarks, if at all viable, should be treated with utmost care.

6. Furthermore, CEB members observe that the report does not contain a comparative analysis of cost-efficiency in terms of the ratio of costs to output — for example, the proportion of the cost of staff engaged in procurement to the total cost of the volume of procurement undertaken. This ratio is also an important factor in the decision on outsourcing of procurement to other organizations, given the likelihood that organizations with a higher ratio of staff cost-to-output would be interested in lowering their costs by outsourcing their procurement to more cost-efficient organizations. CEB members are of the view that this approach would have been more relevant and pragmatic for measuring the cost-efficiency of procurement units, than analysing procurement per staff member.

7. As regards the issue of a single headquarters procurement entity, CEB members recall that IAPWG had already examined this question under the Common Services Initiative in 1997. They note that the consensus that evolved among the various organizations at that time was that it was not in the best interest of the organizations to have a common legislative framework, mandate or priorities. CEB members note that, at the present time, the procurement needs and expertise required by each entity remain very different from one another, except with regard to indirect or administrative expenditures, and that the circumstances that lead to the above conclusion have not changed to justify a single headquarters procurement entity. Moreover, CEB members express doubt that such centralization will necessarily improve the efficiency of procurement services. They further note that the current practice seems to be satisfactory, as it is based on frequent consultation with clients combined with the specific knowledge of the markets in which the procurement staff are engaged, and that the potential benefits highlighted by JIU of having a single procurement entity are already being realized through the adoption of the "lead agency" concept and, wherever appropriate, through outsourcing of procurement to more cost-efficient organizations within the system.

8. CEB members note that IAPWG continues to build on the existing cooperation among United Nations system organizations in improving the harmonization of procurement practices within the United Nations Secretariat and is engaging in a series of United Nations Headquarters system contracts open to all United Nations funds and programmes based in New York. They also note that the United Nations Secretariat has taken the lead in certain market sectors in concluding agreements with manufacturers on behalf of the United Nations system organizations. These

agreements allow for economies of scale and improved pricing based on volume purchasing, reduced administrative burden and improved specifications. They also note that the harmonization of procurement services in the United Nations Secretariat has been further strengthened by the revision of the United Nations Financial Regulations and Rules promulgated in May 2003, which mirrors the regulations and rules adopted by United Nations Development Programme (UNDP) and United Nations Population Fund. This allows for closer cooperation with the other organizations in the United Nations system.

9. With regard to the issue of e-procurement service, CEB members recall that the United Nations Secretariat has been mandated by the General Assembly to ensure that, in the process of automation, the lack of access to technology by developing countries and countries with economies in transition should be taken into account. In addition, CEB members point out that the Enterprise Resource Planning (ERP) systems used by different organization are structured differently from one another and, therefore, do not readily communicate with each other. Hence, it may not be cost-effective at this stage to develop programmes to facilitate the level of system communication required to support a system-wide e-procurement platform.

10. As regards the conclusion in the report concerning the optimum ratio of General Service to Professional staff members in procurement units, CEB members believe that this ratio is dependent, to a great extent, on the nature of the operation and specific situation of each organization as well as the scope of their procurement. For the technical agencies that are in the market for specialized equipment and services, the requirement for professional staff involvement is likely to be higher. CEB members, therefore, do not share the report's conclusion that the ratio of four General Service to one Professional staff member is the best practice standard or that it should be applied to the organizations of the system.

III. Comments on specific recommendations

Recommendation 1:

The Secretary-General of the United Nations should continue to evaluate the results achieved to date by the Procurement Working Group of the Task Force on Common Services at Headquarters and other locations, including findings on procurement performance benchmarks and other best practices resulting from procurement reforms at Headquarters and other locations; the evaluation report should be discussed by HLCM and IAPWG members, which in turn should adopt recommendations for its procurement community as appropriate.

11. This recommendation is acceptable. CEB members note in this regard that in its resolution 55/220 A the General Assembly commended the procurement services of the Secretariat. In its resolution 57/279, the General Assembly noted the efforts made by the Secretary-General to hold procurement seminars in various cities, in particular those located in developing countries and countries with economies in transition. The resolution has been shared with the IAPWG during its deliberations on procurement reforms. Moreover, since 2004, HLCM has incorporated the work of IAPWG into the Committee's agenda and that procurement benchmarking is

tentatively on the agenda of the thirtieth meeting of IAPWG, to be held in Moscow in May 2005.

Recommendation 2:

IAPWG should adopt, approve and implement the concept of lead agency and promote a division of labour among the organizations, aimed at further rationalization of procurement practices by its members. The emphasis as may be applicable on increased consolidation of procurement overhead costs and structures within the United Nations system, in order to enhance division of labour among its members, reduce duplication in the procurement of common user items, and maximize the use of organizational core competencies, including the lead agency concept (para. 20).

12. While the Secretary-General supports the need for continuous efforts to rationalize and make the United Nations procurement process more efficient, CEB members are not convinced that the recommended action could be achieved by centralizing the procurement function of the organizations within the United Nations system. Moreover, they observe that there is little in the report that suggests practical approaches acceptable to the organizations of the system for increasing the consolidation of procurement overhead costs and structures leading to substantial gains in efficiency and effectiveness. CEB members point out that, while the "lead agency" approach is a positive development, not all organizations that may be in a lead agency position are prepared to act as service providers to the other organizations on a regular basis, and these organizations may be unwilling to take on a significant increase in procurement functions. Moreover, although they feel that the lead agency approach may be appropriate for the procurement of common non-industrial items, this should not be interpreted in such a way that the supplier(s) selected by the lead agency have exclusive rights for selling services and goods to the United Nations system. CEB members feel that having a lead agency should not exclude the possibility of obtaining better contractual terms from local suppliers, especially for headquarters and field requirements. In the experience of some members of CEB, the best procurement results have not always been obtained by relying on the concept of lead agency and it is important to maintain a degree of flexibility in this regard.

13. The members of CEB also emphasize that centralization, including through the lead agency approach, could result in a monopolistic market situation in which purchasing is channelled through a relatively small number of suppliers. This in turn would reduce the opportunities for manufacturers from developing countries to sell their products to the United Nations system.

14. Some members of CEB are of the view that the procurement of specialized industrial services and equipment constitutes an integral part of the technical cooperation programme of the specialized agencies and that this usually evolves during the programme implementation cycle. From this standpoint, procurement should be considered as a strategic rather than a routine function for the specialized agency. This would virtually rule out outsourcing to a centralized service. In contrast, the procurement of common non-industrial items would probably be more amenable to centralization, provided certain cost-effectiveness criteria are met.

Recommendation 3:

The executive heads of the International Civil Aviation Organization (ICAO), the International Telecommunication Union (ITU) and the Universal Postal Union (UPU) should bring their separate specialized procurement units under a single system of accountability for procurement operations, in particular in the case of relatively low procurement volumes (para. 29).

15. CEB members note that, while the intention behind this recommendation is commendable, the organizations mentioned above are not in agreement with it due to the organizational and other complexities that could be involved and their prevailing view that disrupting the existing arrangements, which are deemed to be adequate and satisfactory may not bring any worthwhile improvement in the cost-effectiveness of the procurement services. However, centralizing all information concerning procurement in a procurement database may be warranted, subject to an acceptable cost-benefit analysis.

Recommendation 4:

All executive heads should ensure that their respective procurement services have adequate and timely legal support, and that some of their existing staff receive training in the legal aspects of procurement (para. 31).

16. Actually, CEB members already follow this practice. They point out that their respective procurement units have adequate and timely access to legal support and that, for the future, the required legal skills may be obtained through well-designed training activities or via closer working arrangements with the legal office in the organizations of the system.

Recommendation 5:

Notwithstanding the agreement reached at the 29th IAPWG meeting to focus on the project proposal entitled "Common Procurement Training Initiative for the United Nations" on a certification system for procurement officers, active consideration should continue to be given to: (a) where applicable, further increasing the procurement training budgets of the organizations; (b) integration, as far as practicable, of specialized procurement training initiatives and capacities available within the United Nations system; (c) expanded training in e-procurement methods in the context of recommendation 10 (e) below; and (d) development of a technical assistance strategy supporting capacity-building in public procurement agencies in the recipient countries coupled with mobilization of resources to this end (para. 38).

17. CEB members note, in the context of this recommendation, that a trainer's training and the certification of procurement officers in the United Nations Secretariat will be implemented in May and June 2005. UNDP is launching a specific programmatic initiative in 2005 towards capacity-building in procurement in developing countries. Some members of CEB are in favour of accelerating the implementation of IAWPG's training project, and that IAWPG and the Inter-Agency Procurement Services Office (IAPSO) should join their efforts in the organization of

training programmes on procurement for the benefit of the United Nations system as a whole, and in this process, draw upon best practices and the experiences of public and private sector procurement.

Recommendation 6:

(a) The executive heads of the organizations should ensure that procurement manuals exist in the working languages of the secretariats of the organizations in line with the relevant multilingual policies of the organizations concerned, in order to foster the integrity of the procurement process in all field offices (para. 43);

(b) IAPWG should arrange for the further development of its existing common procurement guidelines into a generic system-wide policy and procedures manual to serve as a benchmark which articulates common procurement principles and stages as well as standard quality outcomes, and significantly streamlines procurement procedures to be applied individually and collectively at all duty stations (para. 45).

18. This recommendation is acceptable. In this regard, CEB members are of the view that the emphasis of the procurement manuals should be on common system-wide guidelines that can be supplemented with agency-specific statutory elements and adopted by each organization. They also note that the United Nations Procurement Manual has already been translated into French and Spanish and best practices and comprehensive guidelines for field missions and offices away from Headquarters have been added to its 2004 update. The Manual also covers the different means and processes for cooperation with other United Nations organizations.

Recommendation 7:

(a) In view of the significant growth in procurement activities and the resultant need for more cost-effective arrangements and practices within the United Nations system, the General Assembly should request the Secretary-General, in his capacity as Chairman of CEB, to negotiate the formalization of the mandate of the inter-agency cooperation and coordination role of IAPWG and require it to report annually to the General Assembly through HLCM and to make action-oriented proposals on continuous improvements in the management, performance measurement and coordination of procurement services, in the light of the findings and recommendations of the present report (para. 51).

(b) IAPWG should interact more regularly with other entities in the public and private procurement sector as well as with relevant academic bodies in order to keep abreast of practices, innovations and trends outside the United Nations system (para. 50 (e)).

(c) Strengthening of common procurement services and other cooperative arrangements at different duty stations should be pursued more deliberately as a regular item on the agenda of IAPWG meetings (para. 50 (f)).

(d) In conjunction with recommendation 1 above, the procurement reform experience of various organizations that have implemented

reforms in recent years should be shared in detailed and systematic fashion with the other organizations (para. 56).

19. Members of CEB do not support part (a) of recommendation 7. They are of the view that the formal aspects of reporting on procurement are already on the agenda of HLCM (IAPWG started reporting on procurement to the Committee in 2003), and thus formalizing the mandate of IAPWG adds no value. Moreover, they are not convinced that further reporting on the subject will necessarily improve the positive results already being achieved. CEB members stress the importance, in this regard, of retaining the informal nature of the networking among the relevant actors in the framework of IAPWG to allow for the free-flowing exchange of ideas between procurement practitioners.

20. Parts (b), (c) and (d) of the recommendation are acceptable.

Recommendation 8:

In accordance with relevant General Assembly resolutions on common services within the United Nations system, the Secretary-General should undertake as soon as possible, with the assistance, if necessary, of an external consultant specializing in corporate mergers, a detailed review of the feasibility and efficiency benefits of the following measures:

(a) Further strengthening of procurement reform at Headquarters by establishing a central procurement facility at Headquarters by 2010 with a view to providing energetic leadership and a frame of reference for similar streamlining of procurement activities at other duty stations, especially in the field (paras. 62-63);

(b) As an intermediate stage to that goal, consolidation of the procurement overhead structures and costs of the funds and programmes based at Headquarters (para. 62);

(c) Ways and means of strengthening collaboration and avoiding overlap between the United Nations Office for Project Services (UNOPS) procurement service and IAPSO, including the option of merging the two entities, while ensuring that, in the event of a merger, the inter-agency services currently provided by IAPSO will be continued by a successor entity;

(d) Should UNOPS and IAPSO be maintained as separate entities, UNDP should continue to cover the full costs of the inter-agency services provided by IAPSO (para. 59);

(e) Extending, as appropriate, the measures recommended under (a) above to other duty stations, especially the United Nations Office at Vienna, the United Nations Office at Nairobi and field duty stations (para. 70).

21. CEB members are not in agreement with parts (a), (b) and (e) of this recommendation. They are of the view that the report does not convincingly show that a single procurement facility could offer increased efficiency and effectiveness in view of the different mandates, diversity and range of products procured as well as the differences in needs among the organizations of the system. Moreover, each organization has its own legislative body, mandate and priorities and utilizes its own

ERP system in meeting its procurement needs. CEB members believe that the current modality of consortium buying and/or the lead agency approach are capable of achieving the same results and benefits of a central procurement facility.

22. CEB members note that, with respect to parts (c) and (d) of the recommendations, the Executive Board of UNDP is already examining the UNOPS and IAPSO issue. They are of the view that, whether or not these two entities are merged, organizations of the system should continue to have full access to the services provided and that these services should be free for United Nations system users.

Recommendation 9:

The executive heads should ensure that the development of e-procurement solutions in their respective organizations is guided by the following basic principles, inter alia:

(a) The existence of a legal and procedural framework;

(b) Inter-agency cooperation and coordination;

(c) The promotion of an incremental approach to the establishment of e-procurement; and

(d) The development of a relevant new skill set through training and retraining programmes (para. 83).

23. CEB members note that electronic procurement is already being pursued by the organizations of the system in one form or another. For example, the revised Financial Regulations and Rules of the United Nations already allow for electronic procurement, including electronic signatures. The World Health Organization (WHO) has launched an organization-wide system called WebBuy. UNDP/IAPSO also has an advanced e-procurement platform and is expecting a global e-procurement solution in 2005 as part of the roll-out of its ERP system. The World Meteorological Organization (WMO) is launching an "iProcurement" system as part of its project on integrated resources management. From a system-wide standpoint, however, the organizations of the system would need to deal with issues of data exchange and the interface between various systems, including benchmarking with non-United Nations public sectors, before e-procurement can be considered for the United Nations system as a whole.

Recommendation 10:

In view of the growing importance of the issue of government transparency in public procurement in the context of World Trade Organization agreements, as recently endorsed by General Assembly resolution 55/247 of 12 April 2001 on procurement reform, the executive heads of the organizations should, upon request, develop technical capacity-building support in their procurement portfolio programmes to support capacity-building in public procurement agencies in the recipient developing countries so that they can participate actively and strengthen their abilities to participate in procurement. The programmes in question should aim to complement ongoing activities in this area of the World Bank, the Organization for Economic Cooperation and Development, the

International Labour Organization Turin Centre and IAPSO, among others (para. 91).

24. While the intention behind this recommendation is appreciated by CEB members, they are nonetheless wary that its implementation may not be possible at this juncture, nor until the procurement services within the United Nations system have achieved a fair degree of harmonization. They note, however, that some organizations (such as the United Nations Children's Fund and UNDP) have already initiated actions along this line or are planning to launch special programmes this year on a pilot basis, while others, like WMO, have fully recognized the importance of this question and are devoting significant attention to it.

25. CEB members also express reservations concerning the need to take special measures for capacity-building both within the organizations themselves and in their counterparts engaged in public procurement. With respect to the latter, some members of CEB observe that capacity-building in public procurement in Member States would be beyond their mandate and resources.